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MSCI Adaptive Fixed Basket Indexes Methodology



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1. Introduction

The MSCI Adaptive Fixed Basket Index (the “Index”)¹ aims to measure the performance of a fixed set of securities at launch as selected from an MSCI Index (“Parent Index”) belonging to the MSCI ACWI All Cap Index or MSCI Frontier Market Investable Markets Index (IMI). The fixed set of securities is identified based on pre-determined selection by a client as of a defined date.

Index constituents that are deleted from the Parent Index (as defined below in Section 2.1) will be simultaneously deleted from the Index².

¹ The Indexes are governed by a set of methodology and policy documents (“Methodology Set”), including this methodology document. Please refer to Appendix I for more details.

² A deleted constituent may only be re-added to the Index if (i) it is first added again to the Parent Index, and (ii) at a subsequent Index Review, the fallback mechanism is triggered and the constituent is selected in accordance with the criteria set out in Section 2.3

2. Constructing the Index

2.1 Applicable Universe

The Applicable Universe includes all the constituents of the Parent Index.

2.1.1 Selected Universe

The securities from the Parent Index are selected for the Index as defined by the client and could belong to one of the following:

1. A pre-determined fixed list of constituents as of a specified date
2. Constituents of the Parent Index as of a specified date

2.2 Weighting Scheme

At initial construction and at each Index Reviews, the securities selected for inclusion in the Index can be:

1. Equal Weighted; or
2. Weighted in proportion of their free-float adjusted market capitalization
3. Fixed weighting³.

Between rebalancing, the weights of the securities may drift based on their performance.

If security is deleted from the Index, the weights of the remaining securities are normalized in the Index in proportion of their drifted weights.

2.3 Number of Securities Fallback

In the event that a constituent security is removed from the Index due to a corporate event or otherwise (including but not limited to delisting, being taken private, acquisition, or any other exit from the investable universe), the security shall be replaced at the next scheduled rebalance, if possible, according to the following rules.

Eligible Universe: The replacement security is selected from a pre-defined Eligible Universe.

Selection Criterion: The security ranked as first, based on pre-defined documented rules-based criteria (including but not limited to free float market capitalization, liquidity, absolute/relative volatility) within the Applicable Universe shall be selected as the replacement.

³ Weighting as per the fixed security weights provided by the client

Timing: The replacement shall take effect at the next scheduled Index Review. Between the corporate event and the effective rebalance date, the weight of the removed security shall be redistributed among the remaining constituents on a pro-rata basis.

The objective of this fallback mechanism is to maintain a number of securities as close as possible to a predefined target number in the Index. More than one security may need to be replaced due to a corporate event or otherwise. More than one security may be deleted from the Index at any one time due to a combination of events or changes in the Selected Universe.

3. Maintaining the Index

3.1 Index Review

The Index is reviewed on a scheduled basis. The rebalance schedule may range from monthly, quarterly, semi-annually, annually or any other frequency that is available in the Submission Application⁴ options and will be specified by the Rebalancing Agent at inception in the Submission Application. The pro forma Index is announced nine business days before the effective date for quarterly, semi-annual and annual rebalance schedules. The pro forma Index is announced five business days before the effective date for monthly rebalance schedule.

In general, there are no changes to the constituents of the Index from the list as initially provided, except in the following cases:

- Deletions made in the Parent Index during Index Reviews will be immediately reflected in the Index.
- If the Parent Index undergoes Index Reviews more frequently than the Index, deletions made during those interim Parent Index Reviews will also be immediately reflected in the Index.

The above cases will result in a fallback mechanism as explained in Section 2.3, at the subsequent Index Review

3.2 Ongoing Event-Related Changes

The following section briefly describes the treatment of common corporate events within the Index.

No new securities will be automatically added to the Index. Index constituents that are deleted from the Parent Index will be simultaneously deleted from the Index.

EVENT TYPE	EVENT DETAILS
New additions to the Parent Index	A new security added to the Parent Index (such as IPO and other early inclusions) will not be automatically added to the Index.
Spin-Offs	All securities created as a result of the spin-off of an existing Index constituent will not be automatically added to the Index.

⁴ The Submission Application is the request submitted to MSCI to establish a Fixed Basket Index via the API service.

Merger/Acquisition

For Mergers and Acquisitions, the acquirer’s post event weight will account for the proportionate amount of shares involved in deal consideration, while cash proceeds will be invested across the Index.

If an existing Index constituent is acquired by a non-Index constituent, the existing constituent will be deleted from the Index and the acquiring non-constituent will not be added to the Index.

Changes in Security Characteristics

A security will be removed from the Index if there are changes in its characteristics (country, sector, size segment, etc.) Reevaluation for inclusion in the Index will occur at the subsequent Index Review.

Further detail and illustration regarding specific treatment of corporate events pertaining to deletions that would be relevant to this Index can be found in the MSCI Corporate Events Methodology book under the sections detailing the treatment of events in Capped Weighted and Non-Market Capitalization Weighted indexes. However, if there is any inconsistency between the provisions of this methodology and the MSCI Corporate Events Methodology book, the provisions of this methodology shall prevail.

The MSCI Corporate Events methodology book is available at:

<https://www.msci.com/index-methodology>

3.3 Conditions for Termination of the Index

MSCI will initiate the termination of the Index in line with the Index Termination Policy⁵, when the number of constituents in the Index falls below one. For the avoidance of doubt, the termination process shall continue and not cease once commenced even if the number of constituents increases to one or above at a later date.

5 Please refer to the MSCI Index Policies document at www.msci.com/index/methodology/latest/IndexPolicy for details.

Appendix I: Methodology Set

The Indexes are governed by a set of methodology and policy documents (“Methodology Set”), including the present index methodology document as mentioned below:

- Description of methodology set – <https://www.msci.com/index/methodology/latest/ReadMe>
- MSCI Corporate Events Methodology – <https://www.msci.com/index/methodology/latest/CE>
- MSCI Fundamental Data Methodology – <https://www.msci.com/index/methodology/latest/FundData>
- MSCI Index Calculation Methodology – <https://www.msci.com/index/methodology/latest/IndexCalc>
- MSCI Index Glossary of Terms – <https://www.msci.com/index/methodology/latest/IndexGlossary>
- MSCI Index Policies – <https://www.msci.com/index/methodology/latest/IndexPolicy>
- MSCI Global Investable Market Indexes Methodology – <https://www.msci.com/index/methodology/latest/GIMI>

The Methodology Set for the Indexes can also be accessed from MSCI’s webpage <https://www.msci.com/index-methodology> in the section ‘Search Methodology by Index Name or Index Code’.

Contact us

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To learn more, please visit www.msci.com.

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The process for submitting a formal index complaint can be found on the index regulation page of MSCI's website at: <https://www.msci.com/index-regulation>.

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